

## THE UNITED STATES CUSTOMS SERVICE'S APPROACH TO THE GRAY MARKET: DOES IT INFRINGE ON THE PURPOSES OF TRADEMARK PROTECTION?

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*Although the Tariff Act of 1930 and the Lanham Act prohibit the importation of genuine goods bearing registered U.S. trademarks without the consent of the U.S. mark owner, the Customs Service's regulations allow such imports where the domestic and foreign trademark owners are related entities. The Customs Service's emphasis on the domestic and foreign owner's relationship is inconsistent with the trademark doctrine of territoriality. According to this principle, the trademark may have a separate legal existence in each country where it is registered by establishing separate and independent goodwill for the mark. Where such independent goodwill has been established, import restrictions on gray market goods are a necessary and proper mechanism of trademark protection regardless of the relationship between the U.S. markholder and its foreign counterpart.*

Trade-marks, it has been truthfully said, are the only means by which the manufacturer and the merchant are enabled to inspire and retain public confidence in the quality and integrity of things made and sold, and the only means by which the public is protected against the frauds and impositions of the crafty and designing who are always alert to appropriate to themselves the fruits of the reputation of others [1].

### 1. Introduction

The extension of trademark protection to require the exclusion of gray market imports has long been the subject of debate [2]. Gray market, or parallel, imports are goods bearing genuine [3] trademarks that are manufactured or distributed abroad and then imported into the United States without the consent of the registered United States trademark owner [4]. Given disparities between the domestic price of a good and the price paid abroad as well as fluctuations in the exchange rates, unauthorized importers may purchase large quantities of the product abroad, import the goods into the United States, and sell them to retailers and distributors at a discount [5]. These imports are sold on what is known as the "gray market" because these retailers

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and distributors are in turn able to sell the merchandise at a lower price than that of an authorized dealer [6].

The strength of the dollar outside the United States in 1982–1983 resulted in a large increase in gray market activity [7]. Recent litigation [8] and renewed governmental interest [9] have heightened the debate between trademark owners and parallel importers over what protection, if any, should be afforded the U.S. mark. Despite the importance of the question, the legislative [10] and judicial [11] guidance in the area has been far from clear. In the face of this ambiguous guidance, the United States Customs Service's (Customs) administration of the laws dealing with parallel imports has been too restrictive in protecting the rights of U.S. mark owners [12]. Given Customs' current interpretation of the applicable statutes, "[t]he U.S. registrant seeking to prevent importation or sale of genuine goods may face an uphill struggle to convince a court that it is entitled to injunctive relief" [13].

Based on the principle of territoriality, the modern theory of trademark protection recognizes that the same trademark may have a separate and independent existence in each country where it is registered. By applying this theory of trademark protection to the issue of parallel imports [14], this article identifies the problems of Customs' current approach to the gray market. This article evaluates whether import restrictions on gray market goods are necessary in light of modern trademark theory. Section 2 gives an overview of the purposes of trademark protection and considers the scope of trademark rights in the international marketplace. Section 3 examines the relevant statutory provisions governing the importation of genuine goods – section 526 of the Tariff Act of 1930 [15] and section 42 of the Lanham Act [16] – and the Customs Service's current interpretation and enforcement of these provisions [17]. The article then considers the relief from parallel imports available to the domestic trademark holder in light of the various rationales used to support the existing regulations.

In emphasizing the relationship between the foreign and domestic mark-holders, this article argues that Customs' approach fails to take into account that identical marks in two countries may symbolize separate and independent goodwill in each country [18]. Modern trademark theory, therefore, should require the exclusion of gray market imports regardless of the U.S. trademark owner's relationship with its foreign counterpart whenever a separate goodwill has been established.

## **2. The Theory of Trademark Protection**

A trademark is "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods

and distinguish them from those manufactured or sold by others” [19]. The property right that is vested in a trademark is of immense value to the trademark owner who “is entitled to the protection which the highest powers of the courts can afford” [20]. The safeguarding of this right, in turn, “[protects] the public from deceit, [fosters] fair competition, and [secures] to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not” [21].

### 2.1. *The Purposes of Trademark Protection*

Three separate and distinct interests are promoted by the protection of trademarks [22]. By identifying the product and its manufacturer, trademarks become a guarantee of a particular standard of quality and enable consumers to identify the product of a specific manufacturer or distributor [23]. Consequently, courts prohibit the sale of goods that could deceive consumers as to the source of the merchandise [24].

Secondly, protection of trademarks safeguards the trademark owner. Besides symbolizing the quality of the merchandise, a trademark also represents the goodwill generated by the trademark owner [25]. This protects the markholder from the sale of another’s product as the holder’s own. “Where the owner of a trademark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from misappropriation by pirates and cheats” [26]. This becomes an “intangible asset” entitling the trademark to legal protection from acts that injure its value [27].

Finally, trademark protection promotes free competition [28]. Trademarks improve consumer awareness by acting as “instruments of identification and demand creation” [29]. This enhanced awareness enables purchasers “to distinguish [between] the goods of competing producers and thus to make an informed choice based on the differences in quality between competitively produced or marketed articles” [30]. Moreover, such consumer awareness encourages producers and distributors to develop better products in order to maintain their position in a highly competitive market economy [31].

### 2.2. *The Scope of Trademark Protection*

With the advent of trademarks as a means of identifying the product and its manufacturer, it became necessary to define the scope of the trademark owner’s property right and, in particular, to determine how far this right extends outside the country of the trademark’s origin. In the landmark decision, *Appollinaris Co. v. Scherer* [32], the principle of universality of trademarks was established when the court rejected an attempt to create a territorial title to a trademarked product [33].

Under this principle, a product bearing a genuine and lawfully affixed trademark can carry that mark anywhere in the world without infringing upon the rights of another owner of the same mark in another country [34]. Applying this principle to parallel imports, a U.S. assignee of the trademark rights could sue a foreign assignor for a breach of contract or unfair competition, but if a third party, not subject to any contractual agreement, imported the genuine product, the U.S. registrant was considered powerless [35].

The concept of universality, however, was based upon an idealistic view of the world as a single marketplace and was, therefore, inadequate given the realities of the modern global economy [36]. The principle failed to take into account that the establishment of trademark rights in two countries would inevitably conflict if either or both sets of rights were thought to extend universally [37]. Besides this failure to recognize that a trademark has a separate legal status in the various countries in which it is registered, the universality principle also did not contemplate the possibility that the goodwill represented by the mark may be different in various countries [38].

U.S. courts applied the universality principal in cases of unauthorized, genuine imports until the U.S. Supreme Court's decision in *A. Bourjois & Co. v. Katzel* [39]. In *Katzel*, a foreign manufacturer of face powder sold the plaintiff the right to use its mark and distribute its product in the United States [40]. By investing "substantial sums of money" [41], the plaintiff "succeeded in creating a wide market in the United States for its product" [42] as well as "an excellent business reputation for the character of its goods" [43]. At the same time, the defendant Katzel could buy the identical powder bearing the same trademark directly from the French manufacturer, import it to the United States, and sell it at a profit [44].

In a much cited decision, the Supreme Court rejected the universality principle that had been applied by the Second Circuit and adopted the concept of territoriality [45]. Writing for the Court, Justice Holmes reasoned that the trademark owned by the U.S. assignee is not the same mark as the one owned by the French producer of the powder [46]. In holding that a trademark has a separate legal existence under each country's law, the Court found that the mark can symbolize the local goodwill established by its domestic owner [47].

Two important concepts emerge from the territoriality principle. First, a trademark has a separate legal existence under the laws of each nation where it is registered [48]. Second, the primary purpose of the mark is to symbolize the local goodwill generated by the domestic registrant [49]. Today it is well settled that the territoriality principle and the ideas that it incorporates have discredited the theory of universality [50].

### 3. Existing Relief from Gray Market Imports Available to the Domestic Trademark Owner

#### 3.1. Legislative Treatment of Parallel Imports

The primary statute dealing with the problem of parallel imports is section 526(a) of the Tariff Act of 1930 (section 526), which prohibits unauthorized importation of goods bearing a registered U.S. trademark [51]. Since its enactment, the scope of the protection that the provision offers has been debated by importers and domestic trademark registrants [52].

Although the legislative history of the section is sparse [53], commentators supporting parallel importation argue that section 526 was a “direct result” of the Second Circuit’s decision in *Katzel* [54] and that protection from genuine imports is available only in situations factually similar to *Katzel* [55]. They have concluded that Congress intended section 526 to apply “only to *independent* American companies” [56], not those related to their foreign counterparts.

In contrast, trademark owners emphasize the plain language of the provision. Although recognizing that Congress enacted section 526 in response to the Second Circuit’s opinion in *Katzel*, those who favor restrictions on parallel imports claim that this fact “does not settle the scope of the Act” [57]. They interpret the legislative history as showing that “the underlying policy of section 526(a) was to preserve the role of trademarks as ‘protection of one’s goodwill in the trade’ ” [58]. To implement this policy, it is argued that the language of section 526 be interpreted literally to protect all registered owners of U.S. trademarks [59].

A second statutory provision invoked by trademark registrants in cases dealing with parallel imports is section 42 of the Lanham Act (section 42) [60]. Under this provision, imports that “copy or simulate” [61] goods bearing a registered U.S. trademark are prohibited. Although parallel imports are genuine goods [62], the words “copy or simulate” have been interpreted to apply to such genuine merchandise [63]. Enacted in 1946, the scope of protection afforded the trademark owner by section 42 seems inconsistent with its counterpart in the Tariff Act [64]. Unlike section 526, section 42 offers protection from parallel imports to all U.S. trademark registrants, not only those that are U.S. citizens or corporations [65]. Thus, under section 42, a foreign corporation may register its mark in its own name and still enjoy that provision’s protection. Moreover, unlike section 42, section 526 provides an exception to its general rule of excluding genuine imports when the importer has written consent from the U.S. trademark registrant [66]. Section 526 also allows the entry of genuine imports when the mark has been obliterated from the product [67]. In light of such inconsistencies, “it is not clear whether [section 42] was designed to repeal or supplement [section 526]” [68].

### 3.2. Customs' enforcement of section 526 and section 42

Charged with the enforcement of section 526 and section 42, Customs has had to "fill the vacuum of statutory interpretation" [69] resulting from the lack of legislative [70] and judicial [71] guidance. The present regulations, first adopted in 1972, represent Customs' current interpretation of the legislative intent behind these two provisions. Under these regulations Customs will deny the protection authorized in section 526 and section 42 if:

- (1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;
- (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control [as defined in 19 C.F.R. § 133.2(d)];
- (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner...[72].

If the relationship between the domestic and the foreign mark owners is one of the above, the U.S. registrant will be unable to stop the importation of gray market goods "regardless of whether [it] has developed a separate good will" [73].

To implement this policy, Customs' regulations are designed to determine the relationship between the U.S. trademark owner and foreign firms [74]. An application to record a trademark with Customs [75] must identify "any parent or subsidiary company or other foreign company under common ownership or control which uses the trademark abroad" [76]. Although Customs does not look behind the representations of independence made by the U.S. registrant, such representations are open to attack by third parties [77].

## 4. An Analysis of Customs' Current Approach to Gray Market Imports

### 4.1. Customs' Regulations and the Relevant Trademark Policies

One justification for Customs' approach is that, when a close relationship between the domestic and foreign markholders exists, the importation of genuine goods does not infringe upon the U.S. registrant's trademark rights [78]. When the U.S. trademark owner is part of a single international enterprise or is the originator of the mark and has authorized its foreign use, parallel importers argue that "[t]he rationale underlying trademark protection does not support the exclusion of genuine products" [79]. They contend that in both situations there is "no likelihood of confusion, false designation of origin, [or] dilution" [80] of the mark from gray market imports because consumers will not be deceived by genuine parallel imports, and the importation will result in no injury to the mark's goodwill and reputation [81]. By

contrast, an independent U.S. registrant is able to vary the quality of its product and, therefore, must be protected from the importation of inferior goods bearing the same trademark [82].

This rationale fails to take into account the established trademark principle of territoriality and is “based on the theory of universality, which ignores the independent goodwill the trademark can represent in separate national markets” [83].

Under the principle of territoriality, the same trademark has a different legal existence in each country where it is registered, and the mark symbolizes the *local* goodwill that the domestic mark owner has generated [84]. This goodwill reflects an investment of time, energy, and money on the part of the domestic owner of the mark in building a reputation for the product [85]. A simple example demonstrates that this separate goodwill is created regardless of the U.S. owner’s relationship with its foreign counterpart. Suppose a U.S. corporation is the subsidiary of a large international enterprise and under its control [86]. The corporation distributes a particular product and is the registered U.S. owner of that product’s trademark [87]. The subsidiary has developed an extensive program of advertising and warranty services to attract consumers because the U.S. market for this good is highly competitive. The parent corporation, in contrast, does not need this kind of program to market the product in its less competitive overseas market.

Over time, U.S. consumers expect a certain style and quality as well as the assurance of the domestic registrant’s warranty services when purchasing the product [88]. At the same time, however, the foreign corporation has developed an entire range of style and quality to cater to the particular local tastes. This illustrates that a domestic owner of the mark can establish a separate and independent goodwill for the product even though it is part of a single international enterprise.

Having established an independent goodwill for its mark, the U.S. trademark owner, regardless of its relationship to the foreign entity, is vulnerable to competition from gray market activity [89]. If not excluded from importation, gray market goods that were never intended for the U.S. market will reach U.S. consumers who will continue to attribute the product to the domestic trademark owner [90]. If the import is of an inferior quality or of a style that fails to meet the consumers’ demand, it will cause confusion and, inevitably, injury to the national goodwill for the product [91]. Besides causing such injury to the U.S. markholder, the gray market importer can take advantage of the trademark’s local goodwill [92]. This “free rider” phenomenon “deprives [the U.S. mark owner] of the benefit of its goodwill [to] which it is legally entitled” [93].

This argument was used by the court in *Osawa & Co. v. B & H Photo* [94]. Osawa, the registered domestic trademark owner and distributor of high-quality foreign manufactured Mamiya photographic equipment [95], initiated the

action to enjoin a discount camera dealer from independently importing and dealing in equipment under the Mamiya mark [96]. In an opinion sensitive to trademark policy, the court found that Osawa had developed a substantial goodwill "separate and distinct from the goodwill emanating in the branded goods themselves" [97]. This goodwill was established through an extensive advertising program, free warranty repairs, and other public relations activities [98]. According to the court, the gray market importers, who advertise little [99] and offer no warranty repairs [100], free ride on Osawa's efforts to build a reputation for its products [101]. The court reasoned that the unwary consumers purchasing the gray market equipment would believe that it is backed by Osawa's reputation [102]. The realization that their purchases lack the Osawa warranty protection or do not provide the advantages of Osawa's other promotional activities would result in confusion and, inevitably, damage to the reputation of the mark [103].

By limiting protection under section 526 and section 42 to independent U.S. trademark registrants Customs' regulations fail to protect the investment made by a mark owner who has a business relationship with its foreign counterpart. Under the territoriality principle, both independent and affiliated trademark owners' investments are recognized as creating a separate and independent goodwill [104]. Nevertheless, by protecting only one of these goodwills, the regulations leave the other to be destroyed by "suicidal competition" [105] from imports bearing the same mark. The notion of fair competition "requires that those who invest time, money, and energy into the development of goodwill and a favorable reputation be allowed to reap the advantages of their investment" [106].

The effect of the regulations' failure to take into account the principle of territoriality could be of substantial consequence to U.S. consumers [107]. Although consumers pay less for gray market products [108], such activity is only in the public interest in the short run [109]. Continued importation of such goods will eventually lead to reduced investments in trademarks as businesses lose the incentive to invest time and money in establishing an unprotected goodwill [110]. With fewer trademarks, consumers will be unable to distinguish between different brands and to reward quality with continued purchases [111]. The lack of consumer loyalty to quality will lead to manufacturers having less incentive to develop high quality goods, and distributors less incentive to offer special services and warranties [112].

#### *4.2. Prevention of Antitrust Violations*

Customs' denial of gray market relief to related companies has also been justified under the rubric of the Sherman Antitrust Act [113]. Gray market proponents argue that if a domestic trademark owner, related to its foreign counterpart, is allowed to exclude genuine imports, the domestic business



enterprise would be able to use its trademark right as “a vertical, territorial restraint on the worldwide flow of [goods]” [114].

This argument is premised upon the belief that if the domestic owner of the trademark could stop the importation of the genuine goods which would compete in the U.S. market, it would be able to set an artificially high price for its product [115]. By limiting the protection available under section 526 and section 42 to independent U.S. trademark owners, the Customs regulations are seen as ensuring a certain degree of price competition and encouraging lower prices for consumers [116].

This reasoning was recently adopted by the court in *Parfums Stern, Inc. v. United States Customs Service* [117]. In *Parfums*, the plaintiff was part of an international business enterprise that holds the trademark for well known fragrance products [118]. The court declined to enjoin the importation of gray market goods, emphasizing the relationship between the domestic and foreign mark holders. In addition, the court considered the plaintiff’s attempt to restrain parallel imports as an attempt to “monopolize” the market [119].

This argument, however, presumes too much of the powers of the U.S. Customs Service [120]. In issuing the current set of regulations, Customs has attempted “to implement its perception of antitrust policy” [121]. Nothing in either section 526 or section 42, however, suggests that Congress granted such authority to the agency [122]. Customs’ approach to the related companies problem illustrates its ineffectiveness as an antitrust enforcement agency.

This ineffectiveness stems from regulations that presume an antitrust violation by affiliated companies without taking into account the relevant market considerations [123]. Relying only on the fact that the domestic and foreign trademark owners are related, the regulations focus on intra-brand competition and fail to consider the product market as a whole [124]. This approach uses a method – a market construct based solely on the sales of a single trademarked product [125] – which the United States Supreme Court has rejected as being narrow and artificial when considering possible antitrust liability [126].

Customs’ inability to enforce antitrust policy is further evidenced by the regulations’ failure to consider the reasonableness of any restraint of trade resulting from the exclusion of genuine goods. Although the exclusion of parallel imports by affiliated companies would, as it is argued, constitute a restraint of trade such restraints may be reasonable given the global economy [127]. U.S. law has previously sanctioned territorial restraints as “reasonable instruments in the orderly marketing of goods” [128] in the marketplace.

Furthermore, the claim that such restraints will enable the U.S. registrant to charge an artificially high price for its product fails to consider the wide range of legitimate causes for disparities between the foreign and domestic price. There are many reasons why the domestic price might be higher than the overseas price for the same good. For example, less expensive components,

whose use is prohibited in the United States, may be used by the foreign manufacturer [129].

If, however, the restraint of trade resulting from the exclusion of parallel imports is unreasonable or the price set by the domestic trademark holder still appears artificially high after taking into account legitimate cost differentials, remedies that are more appropriate than Customs' per se rule [130] of antitrust violation are available [131]. Such remedies would include an exclusion action under the antitrust laws, suits for unfair competition, and actions that challenge the validity of the trademark [132]. Any of these are more effective than Customs' blanket denial of protection to affiliated companies because these remedies may be used against any U.S. registrant regardless of its relationship with its foreign counterpart.

#### 4.3. *Protection from the Foreign Trademark Owner*

A third rationale that has been used to justify customs' interpretation of section 526 and section 42 is protecting the domestic registrant from competition by the foreign mark holder [133]. Once the foreign trademark owner has assigned its rights to a domestic firm in the U.S. market, any subsequent attempt to export its product to the United States would be considered a fraud upon that assignment [134]. If, however, the U.S. registrant is the foreign mark holder, or a U.S. firm under foreign ownership, gray market importers argue that the rationale for exclusion does not apply and that the importation of such goods would work no fraud upon the domestic trademark owner [135].

The Court of International Trade relied on this justification in *Vivitar Corporation v. United States* [136]. Vivitar, the domestic registrant of a trademark for high-quality photographic equipment, had authorized foreign manufacturers to apply its mark to their products [137]. Because of favorable exchange rates, third parties were able to purchase the foreign-made equipment abroad and import it back into the United States at a profit [138]. In rejecting Vivitar's claim that section 526 provides a U.S. trademark owner with an "unqualified right" [139] to exclude such imports, the court reasoned that the provision was enacted as "a special remedy to protect American businesses that purchase foreign trademarks from imports that violate the rights the American businesses purchase" [140]. The court concluded that Customs' denial of protection to Vivitar was justified since Vivitar had authorized the foreign application of the mark [141].

Although the case was affirmed, the Federal Circuit narrowed the basis of the holding. The court reasoned that, although Customs regulations are not invalid for reducing the scope of the U.S. mark owner's protection [142], Customs' determination has no effect on a trademark owner's right to obtain a judicial determination of a trademark infringement [143]. Moreover, the determination of whether gray market imports violate section 526 is to be decided on a case-by-case basis [144].

The reasoning of both courts, however, is based on an interpretation of congressional intent that is contrary to the plain language of the statutes [145]. As the Customs Service, itself, argued in a joint amicus curiae brief filed with the Justice Department in a recent gray market case:

nothing in the language of [section 526 and section 42]...expressly limits the exclusionary right conferred to U.S. firms that are independent of owners of identical foreign marks. Rather, the relevant language in [the] statutory provisions purports to confer the exclusionary rights awarded to all owners of U.S. trademarks [146].

The brief states that “neither the legislative reports nor the congressional debate contain any *clear* evidence of a legislative intent to deny trademark protection where the owner of the U.S. mark is owned or controlled by a foreign manufacturer of the trademarked goods” [147]. In light of the language and legislative history of the provisions excluding gray market goods, there appears to be no legislative justification for the regulations [148]. Moreover, the case-by-case methodology runs contrary to the clear language of the statutes: there is nothing either in the statute or in the legislative history that indicates Congress’ intent to let the courts read exceptions into the statute’s clear language based on factual circumstances.

## 5. Conclusion

The plain language of both section 526 of the Tariff Act of 1930 and section 42 of the Lanham Act provides protection to U.S. trademark owners from the unauthorized importation of goods bearing their mark. This protection has been limited to U.S. registrants independent from the foreign owner of the mark. Customs’ imposition of restrictions raises several difficult issues. By changing the scope of the section 526 and section 42 protection, Customs has ventured far from the plain language of the statutes. Furthermore, Customs should not be allowed to implement its own notion of antitrust policy by enforcing a blanket rule that fails to consider market realities.

Although these issues are essential in examining the current approach to parallel imports, the most decisive question arises in the context of modern trademark theory. By denying protection to trademark owners that are related to their foreign counterparts or have consented to the foreign use of their mark, the regulations fail to recognize that a separate and independent goodwill may have been established by the domestic mark owner *regardless* of its affiliation with the foreign registrant. The possibility of the existence of a national goodwill for the mark has been firmly established by the modern trademark principle of territoriality. In rejecting this possibility, the existing regulations represent a regression to the outdated concept of universality [149].

In addition, Customs’ failure to protect the goodwill of certain U.S.

trademark owners is contrary to the very purpose of trademark protection. A trademark does more than act as an instrument of identification. Where the mark holder has invested time, energy, and money in building the reputation of its product, the trademark becomes the symbol of this goodwill. By leaving this mark and the goodwill it represents unprotected, the existing regulations deprive the trademark owner of any return on investment. Inevitably, businesses will no longer have the incentive to invest in the establishment of a mark for their goods, and consumers will be left without one of their principle means of distinguishing between products and rewarding quality with continued purchases.

The plain language of section 526 and section 42 provides for import restrictions on gray market goods. Import restrictions are a necessary and proper mechanism of trademark protection regardless of the relationship between the various owners of an international mark. Customs' emphasis on such relationships is unwarranted and may be economically detrimental. For this reason, the existing Customs regulations would be repealed. The precision of these regulations would not leave the gray market importer totally unprotected, as it may challenge the validity or ownership of the trademark in court.

## Notes

[1] *Scandinavia Belting Co. v. Asbestos & Rubber Works of America, Inc.*, 257 F. 937, 941–42 (2d Cir.), *cert. denied*, 250 U.S. 644 (1919).

[2] See *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923); *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985); *Coalition to Preserve the Integrity of American Trademarks v. United States*, 598 F. Supp. 344 (D.D.C. 1984); *Osawa & Co. v. B&H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984); *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416 (S.D. Fla. 1983); *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 548 F. Supp. 1063 (E.D.N.Y. 1982), *vacated*, 719 F. 2d 42 (2d Cir. 1983); *United States v. Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated*, 358 U.S. 915 (1958); *In the Matter of Certain Alkaline Batteries*, Investigation No. 337-TA-165, USITC Publication 1616 (Nov. 1984), *disapproved by the President*, 50 Fed. Reg. 1655 (Jan. 11, 1985) [hereinafter cited as *Batteries*]. For a comprehensive summary of the competing interests involved in the fight over the legality of gray market imports, see Nat'l L.J., Oct. 28, 1985, at 1.

[3] A product that bears a "genuine" trademark is one that is not an unauthorized simulation or counterfeit, but an original product. See Atwood, *Import Restrictions on Trademarked Merchandise – The Role of the United States Bureau of Customs*, 59 Trade-Mark Rep. 301, 301–02 (1969).

Parallel imports differ from gray market imports only in the respect that in the former, the U.S. trademark owner is an importer of the goods. In the latter circumstance, the U.S. trademark owner is not necessarily an importer of the goods. *Vivitar*, 761 F. 2d at 1555. In this article the terms "parallel imports" and "gray market imports" will be used interchangeably.

[4] Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 Wash. L. Rev. 433 (1982).

[5] For a description of the practices involved, see *Vivitar Corp. v. United States*, 593 F. Supp. 420, 422–23 (Ct. Int'l. Trade 1984), *aff'd.*, 761 F.2d 1552 (Fed. Cir. 1985); *Batteries*, *supra* note 2, at 5; Supnik, *The Bell & Howell: Mamiya Case – Where Now Parallel Imports?*, 74 Trade-Mark Rep. 1, 2 (1984) ("As a result of fluctuations in currency exchange rates, it sometimes becomes possible to purchase goods in certain foreign countries and to import them to the United States for less than the price charged for sales direct from the manufacturer...").

[6] Supnik, *supra* note 5, at 3; see also *Osawa*, 589 F. Supp. at 1170 ("[G]ray marketers operate at (or outside) the fringes of legality. Their operations are in large part held in secrecy..."). Many U.S. industries are affected by this pattern of unauthorized imports. Those facing the greatest damage are the photographic equipment, fragrance and cosmetic, watch, and electronic industries. These four industries alone account for approximately \$700 million in annual sales lost to parallel imports. The Coalition to Preserve the Integrity of American Trademarks, *The Economic Impact of Diversion: A Study of Gray Market Goods and Their Effect on United States Trademark Owners, United States Retail Dealers and the American Consumers 36–39* (1984) [hereinafter cited as *Economic Impact*].

[7] The data in the following table reflects the increase in lost sales that 26 companies surveyed experienced between 1982 and 1983:

Estimated annual sales lost to sales of diverted goods, 1982 and 1983 (\$000)

	1982	1983	% Change
Photographic equipment industry respondents	\$48 250	\$58 860	22
Fragrance and cosmetic industry respondents	46 270	67 550	46
Watch and clock industry respondents	22 070	32 440	47
Other industries	13 100	17 800	36
Total	\$129 690	\$176 650	36

Economic Impact, *supra* note 6, at 34.

[8] See, e.g., *Vivitar*, 761 F.2d at 1552; *Osawa*, 589 F. Supp. at 1163; *Parfums Stern*, 575 F. Supp. At 416.

[9] The Working Group on Intellectual Property of the Cabinet Council on Commerce and Trade has recently reviewed data concerning the problem of parallel imports. See *Certain Importations Bearing Recorded U.S. Trademarks; Solicitation of Economic Data*, 49 Fed. Reg. 21, 453 (1984).

[10] See *Bell & Howell*, 548 F. Supp. at 1065. For a discussion of the legislative treatment of parallel imports, see *infra* text accompanying notes 51-69.

[11] For a discussion of the lack of judicial guidance, see *infra* note 72.

[12] See *Atwood*, *supra* note 3, at 301. For a comprehensive review of the history of Customs' administration of the laws dealing with parallel imports, see *Vivitar*, 593 F. Supp. at 428-32.

[13] *Supnik*, *supra* note 5, at 16.

[14] It has been argued that the problem of gray market imports should not be considered in terms of trademark theory. See *Dam, Trademarks, Price Discrimination and the Bureau of Customs*, 57 Trade-Mark Rep. 14, 31 (1967) ("[I]t should be clearly recognized that trademark law has no relevance in import cases."). Parallel imports are, however, a form of trademark infringement and should be treated as such. See *infra* text accompanying notes 79-113.

[15] Tariff Act of 1930, § 526(a), 19 U.S.C. § 1526(a) (1982) [hereinafter cited as section 526]. Section 526 provides:

[I]t shall be unlawful to import into the United States any merchandise of foreign manufacture [which] bears a trademark owned by a citizen of, or a corporation or association created or organized within, the United States, and registered [in a specific manner] unless written consent of the owner of such trademark is produced at the time of making entry.

[16] Trademark (Lanham) Act of 1946, § 42, 15 U.S.C. § 1124 (1982) [hereinafter cited as section 42]. Section 42 provides:

[N]o article of imported merchandise which shall copy or simulate ... a trademark registered in accordance with the [law] ... shall be admitted to entry at any customhouse of the United States.

[17] For the text of the Customs Service's current set of regulations implementing section 526 and section 42, see *infra* text accompanying note 73.

[18] Goodwill is a term of art and generally describes the intangible advantage that an owner obtains through the success of the trademark. *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916).

[19] 15 U.S.C. § 1127 (1982). The distributor as well as the manufacturer of a product may

own and enjoy the protection of the trademark that the product carries. See *Menendez v. Holt*, 108 U.S. 514, 520 (1888); *McLean v. Fleming*, 96 U.S. 245, 254 (1877).

[20] *Scandinavia Belting Co.*, 257 F. at 941.

[21] S. Rep. No. 1333, 79th Cong., 2d Sess. 4, reprinted in 1946 U.S. Code Cong. & Serv. 1274, 1275 [hereinafter cited as Senate Comm. on Patents].

[22] Note, *Trade-mark Infringement: The Power of an American Trade-mark Owner to Prevent the Importation of the Authentic Product Manufactured by a Foreign Company*, 64 Yale L.J. 557, 561–62 (1955).

[23] *Id.* at 562; see also Senate Comm. on Patents, *supra* note 21, at 1274 (“[T]he public ... may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get.”)

[24] See, e.g., *Yale Electric Corp. v. Robertson*, 26 F.2d 972 (2d Cir. 1928) (court enjoined use of Yale trademark by maker of flashlights and batteries not holding trademark).

[25] See *supra* note 18; see also J. McCarthy, *Trademarks and Unfair Competition*, §§ 2:7–8 (2d ed. 1984) (trademark owner establishes goodwill through the use of advertising and warranty services).

[26] Senate Comm. on Patents, *supra* note 21, at 1274; see also *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1923) (“[A] trademark only gives the right to prohibit the use of it so far as to protect the owner’s goodwill against the sale of another’s product as his.”); *United Drug*, 248 U.S. at 97 (“[T]he law of trademarks is but a part of the broader law of unfair competition.”).

[27] *Bell & Howell*, 548 F. Supp. at 1069.

[28] See Senate Comm. on Patents, *supra* note 21, at 1274 (“Trademarks, indeed, are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other.”). But see *Diggins, Trademarks and Restraints of Trade*, 32 Geo. L.J. 113 (1944) (arguing that trademark protection gives the owner of the mark what amounts to a legal monopoly). Courts have recognized that the protection of trademarks creates a legal monopoly for the mark owner but have stressed the well established public policy in favor of their protection. See *Le Blume Import Co. v. Coty*, 293 F. 344, 349 (2d Cir. 1923). Courts will enforce trademark protection so long as the accompanying restraint of trade is not unreasonable. See, e.g., *Osawa*, 589 F. Supp. at 1176 (suggesting that the use of trademark rights to effect an unreasonable restraint of trade is prohibited by the antitrust laws).

[29] *Handler, Trademarks – Assets or Liabilities?*, 48 Trade-Mark Rep. 661, 676 (1958).

[30] Note, *supra* note 22, at 565.

[31] *Id.*

[32] 27 F. 18 (C.C.S.D.N.Y. 1886). It is well settled that this opinion established the principle of universality. *Supnick*, *supra* note 5, at 5.

[33] *Appollinaris*, 27 F. at 21. The court theorized that since the defendant was selling the genuine product as identified by the trademark, the public was not being deceived and thus there was no infringement of the mark.

[34] *Osawa*, 589 F. Supp. at 1171; see also *Derenberg, Territorial Scope & Situs of Trademarks and Good Will*, 47 Va. L. Rev. 733, 734 (1961) (Trademarks were considered an “outgrowth of a right of personality which was deemed to be so closely associated with the person of their first user that they were held entitled to universal protection beyond the frontiers of the country of origin.”) [hereinafter cited as *Territorial Scope*].

[35] *Atwood*, *supra* note 3, at 303.

[36] *Osawa*, 589 F. Supp. at 1172.

[37] *Id.*

[38] *Id.* For a discussion of how separate goodwill is developed, see *infra* text accompanying notes 84–94.

[39] 260 U.S. 689 (1923). For other cases applying the universality principle, see *Hunyadi Janos Corp. v. Stoeger*, 285 F. 861 (2d Cir. 1922); *Fred Gretsch Mfg. Co. v. Schoening*, 238 F. 780 (2d Cir. 1916); *Russia Cement Co. v. Frauenhar* 133 F. 518 (2d Cir. 1904).

[40] *A. Bourjois & Co. v. Katzel*, 274 F. 856, 857 (S.D.N.Y. 1920).

[41] *Id.*

[42] *Id.*

[43] *Id.*

[44] *Id.* at 858.

[45] *Bell & Howell*, 548 F. Supp. at 1066; Supnik, *supra* note 5, at 7.

[46] *Katzel*, 260 U.S. at 692 (“[I]t is the trademark of the plaintiff only in the United States, and indicates in law and ... by public understanding, that the goods come from the plaintiff although not made by it.”)

[47] *Id.* Under the territoriality principle of trademark protection, “the trademark and the goodwill symbolized by it may have a separate legal existence in different parts of the world and, therefore, [are] subject to territorial assignment and ... have a ‘situs’ in more than one country.” *Territorial Scope*, *supra* note 34, at 734.

[48] *Batteries*, *supra* note 2, at 7; *see also* *Ingenohl v. Olsen & Co.*, 273 U.S. 541, 544 (1927) (“A trademark started elsewhere would depend for its protection in [another country] upon the law prevailing in [that country] and would confer no rights except by the consent of that law.”).

[49] *Batteries*, *supra* note 2, at 7; *see also* *Osawa*, 589 F. Supp. at 1171–72, where the court recognized that:

[A trademark’s] proper lawful function is not necessarily to specify the origin or manufacture of a good (although it may incidentally do that), but rather to symbolize the domestic goodwill of the domestic markholder so that the consuming public may rely with an expectation of consistency on the domestic reputation earned for the mark by its owner, and the owner of the mark may be confident that his goodwill and reputation (the value of the mark) will not be injured through the use of the mark by others in domestic commerce.

*Compare Territorial Scope*, *supra* note 34, at 746 (where the domestic owner of the mark “has made no investment of his own in creating a new market and goodwill ... the territorial trademark rights must be deemed to have remained exclusively with the foreign supplier and no additional situs of goodwill [will] have been created.”) *with* *Takamatsu*, *supra* note 4, at 456 (principle of territoriality is nothing more than a conflict of law doctrine).

[50] For cases applying the principle of territoriality, *see* *Quabaug Rubber Co. v. Fabiano Shoe Co.*, 567 F.2d 154 (1st Cir. 1977) (dictum); *Perry v. American Hecolite Denture Corp.*, 78 F.2d 556 (8th Cir. 1935). In the 1950’s, however, some commentators took the view that goodwill associated with a trademark could only have as its situs the country where the goods were made. *See, e.g.*, *Vandenburgh, The Problem of Importation of Genuinely Marked Goods*, 49 Trade-Mark Rep. 707 (1959); *Callman, Worldmarks and the Antitrust Law*, 11 Vand. L. Rev. 515 (1958).

[51] For the text of the section 526, *see supra* note 15.

[52] *See infra* text accompanying notes 54–59.

[53] The legislative history consisted of only ten minutes of floor debate, 62 Cong. Rec. 11602–05 (Aug. 19, 1922), and a conference report, H.R. Rep. No. 1223, 67th Cong., 2d Sess., 158.

[54] *Vandenburgh*, *supra* note 50, at 711 (“Had the Supreme Court reversed earlier, Congress might not have sought to remedy the situation by legislation.”); *see also* *Coty, Inc. v. Le Blume Import Co.*, 292 F. 264, 268 (S.D.N.Y. 1922), *aff’d*, 293 F. 344 (2d Cir. 1923); *Atwood*, *supra* note 3, at 316.

[55] *See* *Atwood*, *supra* note 3, at 316.

[56] Supplemental Memorandum for 47th Street Photo, Inc., In Opposition to Plaintiff’s Motion for Summary Judgment 18–19, *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985) (emphasis added).

[57] *Sturges v. Clark D. Pease, Inc.*, 48 F.2d 1035, 1037 (2d Cir. 1931) (applied the language of the section to prohibit the importation of a foreign car for the importer’s personal use).

[58] Brief of Appellant Vivitar Corp. at 19, *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed.



Cir. 1985) (quoting 62 Cong. Rec. 11603 (August 19, 1922)) [hereinafter cited as Brief of Appellant Vivitar].

[59] *Id.* at 15.

[60] For the text of section 42, see *supra* note 16.

[61] 16 U.S.C. § 1124 (1982).

[62] See *supra* note 3.

[63] See *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923) (per curiam). But see *Coalition*, 598 F. Supp. at 848 (“[S]ection 42 ... clearly applies only to merchandise bearing counterfeit or spurious trademarks ...”); Kuhn, *Remedies Available at Customs for Infringement of a Registered Trademark*, 70 Trade-Mark Rep. 387, 388 n.4 (1980) (“[T]o the extent that there is a statute barring the admission of genuine goods, it is Section 526(a), and not Section 42.”)

[64] Callman, *Unfair Competition with Imported Trademarked Goods*, 43 Va. L. Rev. 323, 325 (1957).

[65] Compare section 526 (affords protection to a trademark “owned by a citizen of, or by a corporation or association created or organized within, the United States”) with section 42 (affords protection to “any domestic ... manufacturer or trader, or [to] any [foreign] manufacturer or trader.”)

[66] Section 526, *supra* note 15.

[67] See 19 U.S.C. § 1526(c) (1982).

[68] Callman, *supra* note 64, at 325. One commentator has noted that prior to the enactment of section 42, all of the reports on trademark bills which resulted in the Lanham Act called for the repeal of section 526 and the inclusion of its provisions in section 42. Instead, “section 42 [is] merely a reenactment of section 27 of the [Trademark] Act of 1905.” Atwood, *supra* note 3, at 306.

[69] Atwood, *supra* note 3, at 322.

[70] See *supra* text accompanying notes 51–69.

[71] There has been no meaningful judicial guidance since the Supreme Court’s decision in *Katzel*, 260 U.S. at 689. It has been argued that *United States v. Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated*, 358 U.S. 915 (1958), provides substantial guidance as to the scope of section 526. Atwood, *supra* note 3, at 307. In *Guerlain*, the district court found that the use of Section 526 to exclude parallel imports by a U.S. trademark registrant closely associated with the foreign trademark owner constituted a monopolization of trade prohibited under section 2 of the Sherman Antitrust Act. 155 F. Supp. at 91. Yet, after successful prosecution of its case, the Government moved for the Supreme Court to vacate the judgment, which would allow it to move for dismissal on remand. The Government did so on the premise that a pending piece of legislation would be enacted. The bill would have repealed section 526, revised section 42, and clarified that trademark protection from parallel imports would not be available to a U.S. trademark registrant related to its foreign counterpart. H.R. 7234, 86th Cong., 1st Sess., 105 Cong. Rec. 8540 (1959). This legislation, however, was never enacted. In light of these circumstances surrounding the district court’s opinion, reliance upon the opinion for judicial guidance is at best misguided. *O’Connor v. Donaldson*, 422 U.S. 563, 577–78 n.12 (1975) (when the Supreme Court vacates the decision of a lower court, it “deprives that court’s opinion of precedential effect.”)

[72] 19 C.F.R. § 133.21(c) (1985). For purposes of this provision “common ownership and control” are defined in the Customs regulations as the following:

- (1) “Common ownership” means individual or aggregate ownership of more than 50 percent of the business entity; and
- (2) “Common control” means effective control in policy and operations and is not necessarily synonymous with common ownership.

19 C.F.R. § 133.2(d) (1985).

[73] Kuhn, *supra* note 63, at 394. It should be noted that the Customs remedies are not exclusive and that post-importation remedies are available, such as an action for trademark

infringement under 15 U.S.C. § 1114 (1982) (if the likelihood of confusion may be proven), unfair competition actions under section 337 of the Tariff Act of 1930 (if the effect or tendency to substantially injure the industry may be proven), or a suit for breach of contract (assuming that the foreign mark holder is the gray market importer). *Id.* at 387.

[74] See 19 C.F.R. §§ 133.2(c), (d) (1984); see also Atwood, *supra* note 3, at 315 (suggesting that the registrant's attorneys can rearrange corporate structure or ownership of the trademark in order to meet Customs' requirement for protection).

[75] When a mark is registered with the United States Patent and Trademark Office, the owner of a trademark that is also applied abroad should record the mark with the Customs Service to avail itself of the added protection of section 526 and section 42. Kuhn, *supra* note 63, at 404.

[76] 19 C.F.R. § 133.2(d) (1985).

[77] Third parties may advise the Entry, Licensing, and Restrictive Merchandise Section of the Customs Service of the possibility of misrepresentations. If, after a review of the application for recordation, the Service determines that the applicant has misrepresented its relations with the foreign mark owner, the importation of parallel goods will not be barred. Kuhn, *supra* note 63, at 397.

[78] See Note, *supra* note 22, at 567.

[79] *Id.*

[80] *Bell & Howell*, 548 F. Supp. at 1066.

[81] See Note, *supra* note 22, at 562 n.2.

[82] Supnik, *supra* note 5, at 16.

[83] *Batteries*, *supra* note 2, at 3 (additional views of Vice Chairman Liebler).

[84] See *supra* text accompanying notes 47–50.

[85] See *supra* text accompanying notes 25–27.

[86] For the relevant definition of control, see *supra* note 72.

[87] See, e.g., *Osawa*, 589 F. Supp. at 1166.

[88] See generally Donegan, *Importation of Trademarked Articles: The Case of the Interloping Importer*, 50 Trade-Mark Rep. 1035, 1052 (1960) (in light of the modern complexities of product distribution, "a genuine article connotes not only the source of manufacturer ... but also the chain of selection, distribution and servicing upon which [the consumer] has been able to rely in the past.")

[89] It should be noted that the U.S. trademark owner is unable to prevent the sale of genuine goods to gray market importers through contractual mechanisms. Once the goods leave the control of the foreign owner of the mark, the trademark doctrine of exhaustion applies. See *Prestonettes*, 264 U.S. at 359. The foreign owner is, therefore, unable to prevent third parties from selling the goods to unauthorized U.S. importers. See generally, 3A R. Callman, *The Law of Unfair Competition, Trademarks, and Monopolies* § 21.17 (4th ed. 1983). Any contract between the foreign and U.S. trademark owners prohibiting such sales would be impossible to enforce. See Brief of Appellant Vivitar, *supra* note 58, at 5.

[90] *Batteries*, *supra* note 2, at 7–8 (additional views of Vice Chairman Liebler).

[91] See *Bell & Howell*, 548 F. Supp. at 1079; *Batteries*, *supra* note 2, at 7–8 (additional views of Vice Chairman Liebler); see also Supnik, *supra* note 5, at 8–9.

[92] For example, Vivitar claims that it loses 10 percent of its U.S. sales or 10 million dollars each year to parallel imports. Brief of Appellant Vivitar, *supra* note 58, at 5.

[93] *Batteries*, *supra* note 2, at 40; see also Atwood, *supra* note 3, at 308 ("It cannot be denied that a third party who purchases merchandise abroad, then imports it and sells it in competition with the American trademark registrant, gets the benefit of free advertising in the American market.").

[94] 589 F. Supp. 1163 (S.D.N.Y. 1984).

[95] *Id.* at 1164.

[96] *Id.*

[97] *Id.* at 1174.

[98] *Id.* at 1166. Other public relations activities used by Osawa included free seminars to educate its customers about the complex capabilities of its products, rebates, and free equipment to purchasers.

[99] The court noted that B.&H.'s advertising emphasized price and did nothing to support the reputation of the Mamiya trademark. *Osawa*, 589 F. Supp. at 1167; *see also* Brief of Appellant Vivitar, *supra* note 58, at 4 n.3 (advertising for gray market goods usually emphasizes price and relies on the established reputation of the trademark to establish quality).

[100] In an attempt to avoid "consumer confusion, disaffection, and resentment, [Osawa] has performed warranty repairs ... on the gray market cameras." *Osawa*, 589 F. Supp. at 1168. The court rejected B.&H.'s offer to place warranties on the cameras that it sells because B.&H. would have no incentive to perform such an obligation properly since it has no stake in preserving the goodwill of the mark. *Id.* at 1169.

[101] *Id.* at 1168.

[102] *Id.* at 1167.

[103] *Id.* at 1168. Osawa is left with the choice of providing free warranty services on the gray market cameras, thereby subsidizing B.&H.'s business, or suffering damage to the goodwill of its mark. *Id.* at 1169. Gray market imports also damage the mark's reputation among the authorized dealers for the product. *See Callman, supra* note 89, at § 22.17 n.7.

[104] *See supra* text accompanying notes 85–89.

[105] Thomas, *Licensing and Importing Under Trademarks*, 49 Trade-Mark Rep. 1245, 1254 (1959).

[106] *Truck Equipment Service Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1215 (8th Cir.), *cert denied*, 429 U.S. 861 (1976); *see also American Hecolite*, 78 F.2d at 561 (an importer who has no enforceable trademark right but who had established a substantial goodwill is entitled to protection against another importer who sold the genuine product "on the plaintiff's reputation and standing").

[107] *See Batteries, supra* note 2, at 4 (additional views of Vice Chairman Liebler).

[108] *See infra* notes 116–17 and accompanying text.

[109] *Batteries, supra* note 2, at 3–4 (additional views of Vice Chairman Liebler).

[110] *Id.* at 9 (additional views of Vice Chairman Liebler). Although certain post-importation remedies are available, the trademark owner may not always be able to take advantage of the relief they provide. *See supra* note 74. Moreover, this relief is usually only obtained after a lengthy judicial or administrative proceeding. Given the uncertainty of relief and the expense of the necessary litigation, the owner of the mark will eventually confront a cost-benefit analysis that no longer favors the investment required to establish a trademark.

[111] *Batteries, supra* note 2, at 9 (additional views of Vice Chairman Liebler).

[112] *Id.*; *see also* Federal Trade Comm., FTC Office of Policy Planning, *The Craswell Report, Trademarks, Consumer Information and Barriers to Competition* (1979) at 7:

If there were no trademarks ... a manufacturer would gain little or nothing from improving his product's quality. Consumers would be unable to recognize high-or low-quality brands, so sales would tend to go to manufacturers who reduced their price by cutting corners on quality. The result would be a race to produce inferior products, rather than competition to produce better ones.

[113] 15 U.S.C. §§ 1–7 (1982).

[114] *Bell & Howell*, 548 F. Supp. at 1068; *see also Kuhn, supra* note 63, at 393 ("[T]he Customs Service should not be the vehicle of a trademark owner to implement monopolistic control over the distribution of trademarked goods in this country."). This restraint of trade rationale has also been used in the European Economic Community to prevent the exclusion of parallel imports by related companies. *See Takamatsu, supra* note 4, at 440–52. *But see* Waelbroeck, *The Effect of the Rome Treaty on the Exercise of National Industrial Property Rights*, 21 Antitrust Bull. 99, 113–24 (1976) (decisions of the European Court of Justice Prohibiting the

use of trademarks to restrain the movement of goods by related companies jeopardizes the function of trademark protection); Mann, *Industrial Property and the E.E.C. Treaty*, 24 Int'l. & Comp. L.Q. 31, 37 (1975) ("[T]he right of the [trademark] owner to prevent the importation of infringing goods cannot possibly be defined as a disguised qualitative restraint on trade ...").

[115] See Note, *supra* note 22 at 562; see also Atwood, *supra* note 3, at 303 ("Different arms of the same company should not be able to maintain two separate price structures for the same product, one price being above that which the market would seek if importers could compete freely.").

[116] See Bicks, *Antitrust and Trademark Protection Concepts in the Import Field*, 49 Trade-Mark Rep. 1255, 1260-61 (1959) ("[T]here is ... no sound reason for giving these affiliated companies the special and drastic privilege of being able to set prices in the United States without fear of any competition from the resale of the products by those who have purchased them abroad.").

[117] 575 F. Supp. 416 (S.D. Fla. 1983).

[118] *Id.* at 418.

[119] *Id.* at 419-20. The court found that the importation of parallel goods enables consumers to benefit from lower prices. *Id.* at 416.

[120] See Hoffman, *A Study of the Question Whether Existing Statutes Should Be Amended to Eliminate Present Customs Regulations Excluding From Import Restrictions Imported Articles Bearing Recorded Trademarks on Trade Names Applied Abroad By or With the Authority of the United States Owners*, 1978 A.B.A. Sec. Pat. Trade-Mark Copyright L. Rep. 76 (Customs should not be used as an "agency of antitrust enforcement").

[121] *Osawa*, 589 F. Supp. at 1177. *Contra* Atwood, *supra* note 3, at 309. The regulations are based on the antitrust rationale used in the judicial decision in *Guerlain*, 155 F. Supp. at 77. See Memorandum of Points and Authorities in Support of Plaintiff's Motion for Summary Judgment at 42, Coalition to Preserve the Integrity of American Trademarks v. United States, 598 F. Supp. 344 (D.D.C. 1984) (quoting letter from the Secretary of the Treasury to seven United States senators (Dec. 23, 1983)) [hereinafter cited as Coalition Memorandum]. Considering the lack of precedential value of the opinion in *Guerlain*, the use of that district court decision as the basis of the current regulations is unwarranted. See *supra* note 72.

[122] *Osawa*, 589 F. Supp. at 1177 ("Antitrust questions are far too complex to be reasonably decided by reference to [Customs'] short questionnaire on corporate ownership.").

[123] See Hoffman, *supra* note 121, at 76.

[124] *Id.*

[125] Coalition Memorandum, *supra* note 121, at 42.

[126] In *United States v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377, 393 (1956), the Supreme Court stated:

[O]ne can theorize that we have monopolistic competition in every non-standardized commodity with each manufacturer having power over the price and production of his own product. However, this power that, let us say, automobile or soft drink manufacturers have over their trademark products is not the power that makes an illegal monopoly. Illegal power must be appraised in terms of the competitive market for the product.

[127] See Handler, *supra* note 29, at 672; see also Derenberg, *Current Trademark Problems in Foreign Travel and the Import Trade*, 49 Trade-Mark Rep. 674, 705-06 (1959). As Professor Derenberg stated:

We should realize that we are still far away from "one world" or even a hemispheric "common market" so that certain restrictive practices and commercial operations which, if affecting only certain geographical areas within the territory of the United States, might fall within the ban of the antitrust laws, should not without more be similarly outlawed in the foreign trade area.

*Id.*

The Supreme Court has ruled that any vertical restraint of trade that results from a firm restricting the distribution of its own product is subject to the antitrust rule of reason. *Continental T.V., Inc. v. G.T.E. Sylvania, Inc.*, 433 U.S. 36 (1977).

[128] Handler, *supra* note 29, at 672. In addition, U.S. courts have limited the extraterritorial reach of U.S. antitrust laws when sensitive foreign issues are involved. See *Mannington Mills, Inc. v. Congoleum Corp.*, 595 F.2d 1287 (3d Cir. 1979); *Timberlane Lumber Co. v. Bank of America*, 549 F.2d 517 (9th Cir. 1976).

[129] See Joint Amicus Curiae Brief filed on behalf of the United States by the U.S. Department of Justice and the U.S. Customs Service at 16, Bell & Howell: *Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (9th Cir. 1983), reprinted in Joint Appendix at 79. *Vivitar Corp. v. United States*, 761 F.2d 1152 (Fed. Cir. 1985) [hereinafter cited as Amicus Curiae Brief – Bell & Howell].

[130] Customs' approach establishes a per se rule in that any exclusion of genuine goods by related companies is in a sense considered a per se antitrust violation. In general, the future of the per se rule in antitrust law has been under increasing scrutiny. See *Jefferson Parish Hospital District v. Hyde*, 104 S.Ct. 1551 (1984).

[131] See *Osawa*, 589 F. Supp. at 1178.

[132] *Id.*; see also *infra* note 149.

[133] Supnik, *supra* note 5, at 9.

[134] Atwood, *supra* note 3, at 305–06.

[135] *Id.* at 316.

[136] 593 F. Supp. 420 (Ct. Int'l. Trade 1984), *aff'd* 761 F.2d 1552 (Fed. Cir. 1985).

[137] 593 F. Supp. at 422–23.

[138] *Id.* at 423.

[139] *Id.* at 422.

[140] *Id.* at 435.

[141] *Id.* at 431.

[142] 761 F.2d at 1569.

[143] *Id.* at 1569–70.

[144] *Id.* at 1570.

[145] See Brief of Appellant Vivitar, *supra* note 58, at 10.

[146] Amicus Curiae Brief – Bell & Howell, *supra* note 129, at 7–8.

[147] *Id.*

[148] Kuhn, *supra* note 63, at 394 (raises the question of whether the regulations are ultra vires).

An importer of excluded goods is not without recourse. Importers may bring suit to challenge either the validity or ownership of the trademark. *Coty*, 293 F. at 269 (Section 526 was “not meant to prevent a person ... from testing the trademark in the courts.”) The importer also has the option of removing the infringed mark from the goods, but this is not an attractive option to gray market importers who benefit from the goodwill that the mark represents. See *supra* text accompanying notes 93–94.

[149] *Osawa*, 589 F. Supp. at 1175 (“The old universality cases and the theory upon which they rest represent an incorrect analysis that has been rewarded in both statutory and decisional law, at least where the domestic markholder has developed an independent goodwill.”).